



**United States Agency for International Development  
West Bank and Gaza Mission**

**October 14, 2003**

**REF: 2004-WBG-02**

**TO ALL USAID RECIPIENTS AND INSTITUTIONAL CONTRACTORS**

**SUBJECT:** Guidance on Reporting Requirements Pertaining to Section 579 of the FY 2003 Foreign Operations Act – Prohibition on Taxation of United States Assistance.

Dear Implementing Partners:

The reporting requirements identified in this memorandum should be considered as an addendum to your award (grant, cooperative agreement, contract) document until a formal modification is issued to include and/or update this clause. We are providing you this notice to expedite notification of these reporting requirements.

In order for the Mission to meet reporting requirements and comply with Section 579 of the FY 2003 Foreign Operations Act, we will require annual information from you pertaining to Palestinian Authority value added taxes (VAT) and customs duties imposed on commodities financed with USAID assistance in excess of \$500 per transaction. The reporting period per award for FY 2003 will only cover the period of February 20, 2003 through September 30, 2003.

Reporting requirements follows:

Reporting of Foreign Taxes

- (a) Final and Interim Reports. The awardee must annually submit two reports (negative reports required):
  - (i) an interim report by November 17; and
  - (ii) a final report by April 16 of the next year.
- (b) Contents of Report. The reports must be in the format provided in attachment A and contain:
  - (i) Contractor/recipient name.
  - (ii) Contact name with phone, fax and email.
  - (iii) Award number(s); separate report needs to be provided for each award.
  - (iv) Amount of foreign taxes assessed by the Palestinian Authority on

Tel Aviv: American Embassy  
71 Hayarkon St.  
Tel. 972-3-5114848  
Fax. 972-3-5114888

Jerusalem: American Consulate General  
P.O. Box 290  
Tel. 972-2-6227230  
Fax. 972-2-6259484

commodity purchase transactions valued at \$500 or more financed with U.S. foreign assistance funds under this agreement during the prior U.S. fiscal year. NOTE: For fiscal year 2003 only, the reporting period is February 20, 2003 through September 30, 2003.

- (v) Only foreign taxes assessed by the foreign government in the country receiving U.S. assistance is to be reported. Foreign taxes by a third party foreign government are not to be reported. For example, if an assistance program for the Palestinian Authority involves the purchase of commodities in Israel using foreign assistance funds, any taxes imposed by Israel would not be reported.
  - (vi) Any reimbursements received by the awardee during the period in (iv) regardless of when the foreign tax was assessed plus, for the interim report, any reimbursements on the taxes reported in (iv) received by the recipient through October 31 and for the final report, any reimbursements on the taxes reported in (iv) received through March 31. Any refund from the Palestinian Authority that is received directly by the awardee should be reflected. For refunds processed by USAID, we will fill in the VAT refunded amount. If a VAT refund receipt was provided to USAID for refund processing the awardee will need to provide the month under which the claim was submitted to USAID and the serial number of the invoice as included in the claim.
  - (vii) The final report is an updated cumulative report of the interim report.
  - (viii) Reports are required even if the contractor/recipient did not pay any taxes during the report period.
  - (ix) Cumulative reports may be provided if the contractor/recipient is implementing more than one program in a foreign country.
- (c) Definitions. For purposes of this clause:
- (i) "Agreement" includes USAID direct and country contracts, grants, cooperative agreements and interagency agreements.
  - (ii) "Commodity" means any material, article, supply, goods, or equipment.
  - (iii) "Foreign government" includes only a Palestinian Authority entity.
  - (iv) "Foreign taxes" means value-added taxes and custom duties assessed by a foreign government on a commodity. It does not include foreign sales taxes.
- (d) Where. Submit the reports by either of the following means:  
email attachment (preferred): [579vat@usaid.gov](mailto:579vat@usaid.gov)  
or fax to 972-3-511-4888, attention Michael Kopti
- (e) Subagreements. The awardee must include this reporting requirement in all applicable subcontracts, subgrants and other subagreements.

(f) For further information see <http://www.state.gov/m/rm/c10443.htm>.

As previously communicated VAT is an extremely sensitive and important issue for the Mission, and for USAID worldwide. Please be reminded that it is USAID policy not to pay VAT and custom duties. Careful attention must be paid to avoiding VAT whenever possible and, failing that, obtaining valid VAT receipts so that USAID may seek VAT refunds from tax authorities. Failure to do so could put the Mission's programs in jeopardy and possibly lead to a USAID determination that VAT costs are unallowable. As all our grantees currently have 0% Palestinian VAT status, a process is currently available that should enable grantees to avoid payment of Palestinian VAT, which should greatly limit Section 579 reporting. For our contractors we are implementing a simplified registration process with the PA that will result in 0% Palestinian VAT for our contractors as well.

Any questions pertaining to this reporting requirement should be addressed to Michael Kopti or Abeer Odeh of the Mission's Financial Management Office (FMO).

Sincerely,

(Signature on file) \_\_\_\_\_

Erin E. McKee & Leo Pizarro  
Contracting & Agreement Officers

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